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SUBJECT: 2009 SLOVENIA INVESTMENT CLIMATE STATEMENT

REF: 08 STATE 123907

¶1. In response to reftel, the 2009 Investment Climate Statement for Slovenia follows:

A.1 Openness to Foreign Investment

A European Union member since May 1, 2004 and a eurozone member since January 1, 2007, Slovenia has a strong mix of qualities to recommend it as an investment location. With excellent infrastructure, a major port on the Adriatic Sea and a highly educated work force, Slovenia can be an attractive place for the investor to access the markets of Central and Southeastern Europe.

The new left-leaning government that came into power in November 2008 has not yet announced its plans for new economic policies or privatization. The government has thus far been occupied with responding to the global financial crisis and efforts to implement and maintain broad fiscal discipline to avoid a recession. This government is expected to continue with Slovenia,s tradition of consensus-based policymaking, which will slow privatization efforts. It will attempt to privatize the financial markets and telecommunication industry before other areas. The government has said it will encourage development of big infrastructure projects in the energy and transportation sectors - good areas for FDI.

Slovenia welcomes foreign direct investment that does not negatively impact the environment. Slovenia particularly welcomes those investments that create jobs in the high-tech sector and have links to R and D activities, for which special tax incentives are available. Slovenia is a high-tax country but, in January 2007, the government introduced tax cuts that have significantly reduced business costs. The payroll tax was eliminated in January 2009. The corporate tax rate has dropped to 21% in 2009 and will level off at 20% for 2010 and beyond.

There are no formal sectoral or geographic restrictions to foreign investment. In some regions, Slovenia offers special facilities and services to foreign investors. Slovenia offers financial and tax incentives within EU parameters to firms undertaking projects in economically depressed and underdeveloped areas.

The Slovenian public agency for promoting foreign direct investment, JAPTI, announced that their 2008 FDI Promotion Program will make the most of Slovenia's comparative advantages, specifically: 1) geographical location in the heart of Europe with good communication and transport infrastructure; 2) relatively well-developed and technologically advanced industry; 3) well-educated labor

force; 4) the relative openness of its economy; and 5) political and economic stability. JAPTI wants to position Slovenia as the best logistical hub for new and old businesses in the south of Europe. JAPTI has worked with local communities in creating nine business zones for new investors. The program also seeks to overcome the main weaknesses of Slovenia,s current policies related to FDI. Foreign companies report these weaknesses to be: the Government,s passivity in promoting FDI, the inaccessibility of building sites for conducting business activities, the lack of financial incentives for greenfield investors, and the low mobility of the labor force.

Companies investing (or considering investing) in Slovenia may be eligible for financial assistance in the form of grants from the Slovenian Public Investment Promotion Agency (JAPTI). Information and application forms are available from JAPTI or on their website www.investslovenia.si. Incentives will be provided for projects that create at least 100 new jobs. This requirement is reduced to 50 new jobs in less developed regions and to 10 new jobs if the investment is in the field of R&D. The Government also provides free training and retraining employment grants to employers who intend to hire unemployed persons.

Municipalities offer different forms of incentives, which may be negotiated on a case-by-case basis. These incentives may include, but are not limited to, easy access to industrial sites, utility connections and local tax holidays.

Despite the challenges listed herein, the GOS expects that FDI inflows will increase in the near to medium term, as more foreign investors look to Slovenia to establish a regional presence or to strengthen their position in the area. FDI is expected to increase from the following sources:

(i) Acquisitions of already privatized companies;
(ii) Privatization of state-owned assets;
(iii) Expansion of foreign-owned companies. (Historically, this has been the largest source of new jobs in the manufacturing sector);
(iv) Privatization funds and other state-run funds will continue to consolidate their portfolios as a way to increase liquidity; and
(v) Greenfield investments.

A.2 Conversion and Transfer Policies

Since September 1, 1995, Slovenia has adhered to Article VIII of the IMF Article of Agreement, thus committing itself to full current account convertibility and the full repatriation of dividends. Slovenia replaced its previous currency, the Slovenian tolar, with the Euro in January 2007. In practice, to repatriate profits, joint stock companies must provide the following: evidence of the settlement of tax liabilities; notarized evidence of distribution of profits to shareholders; and proof of joint stock company membership (Article of Association). All other companies need to provide evidence of the settlement of tax liabilities and the company's act of establishment.

For the repatriation of shares in a domestic company, the company must submit its act of establishment, a contract on share withdrawal, and evidence of the settlement of tax liabilities to the authorized bank.

A.3 Expropriation and Compensation

According to Article 69 of Slovenia,s Constitution, the right to possession of immobile property can be taken away or limited, with compensation in kind or financial compensation under conditions determined by law on the basis of public interest.

There are no current expropriation-related investment disputes in Slovenia. National law gives adequate protection to all investments.

However, there is an ongoing dispute over property expropriated by the socialist Yugoslav government after World War II. The 1991 Denationalization Act allowed for claims to be submitted for recovery of such property. Of a total 39,626 denationalization claims submitted, 492 were filed by U.S. citizens. None of these U.S. citizen claimants were U.S. citizens at the time the property was expropriated. All U.S. citizen claimants are either individuals who acquired U.S. citizenship subsequent to their property being expropriated, or the heirs of individuals whose property was seized when the owners were not U.S. citizens. Of these claims, 427, or 87%, had been resolved as of August 31, 2008.

A.4 Dispute Settlement

Slovenia is a signatory to the 1958 New York Convention on Recognition of Foreign Arbitral Awards and the 1961 European Convention on International Commercial Arbitration.

Slovenia has a well-developed, structured legal system. It is based on a five-tier (district, regional, appeals, supreme, and administrative) court system. These courts deal with a vast array of legal cases including criminal, domestic relations, land disputes, contracts, and other business-related issues and probate. A separate social and labor court with regional, appeals, and supreme courts, deals strictly with labor disputes, pensions, and other social welfare claims. Similar to most European countries, Slovenia also has a Constitutional Court that hears complaints alleging violations of human rights and personal freedoms, expresses its opinions on the constitutionality of international agreements and state statutes, and deals with other high profile political issues. In keeping with European legal standards, in 1997 the Slovene Parliament established an administrative court to handle disputes among local authorities, between state and local authorities, and between local authorities and executors of public authority.

The Parliament passed a law on Legal Proceedings in 1999 to speed up court proceedings. The law stipulates a stricter and more efficient procedure for serving court documents and providing evidence. For commercial cases, defendants are now required to file their defense within 15 days of receiving notice of a claim. Despite the efforts to improve the effectiveness of the Slovene court system, the court backlogs at all levels are still significant and cases can drag on for years. Slovenia has received warnings from the EU on this matter several times. Because the problem is a major public concern, in 2006 the government introduced a program to cut the backlogs. The program targets a 50% decrease in open cases and a significant cut in the time courts have to solve an open case. Over the next five years, the program will cut the average processing time of a case from 18 months to 6 months. In order to accomplish this, the Ministry of Justice has started creating a better working environment in courts, funding additional staff, changing remuneration of judges and administrative staff, and improving IT tools used in the judicial sector. There were 451,172 unresolved cases as of end of June 2008.

Unless parties have agreed to binding arbitration for disputes, the regional court specializing in economic issues has jurisdiction over business disputes. However, the parties may agree in writing to settle disputes in another court of jurisdiction.

The parties may also exclude the court as the adjudicator of the dispute if they agree in writing that contractual disputes be solved by arbitration, whether ad hoc or institutional. In the former case, the applicable procedure and law must be determined. In the case of institutional arbitration, the type of arbitration must be clearly defined. The Permanent Court of Arbitration within the Chamber of Economy is an independent institution that solves domestic and international disputes arising out of business transactions among companies.

The procedure before the Permanent Court of Arbitration at

the Chamber of Economy of Slovenia is governed by the Regulations on the Procedure before the Permanent Court of Arbitration at the Chamber of Economy of Slovenia. Arbitration rulings are final and subject to execution.

Competition is keen in Slovenia and bankruptcies are an established and reliable means of working out firms' financial difficulties.

Slovene law provides three procedural methods for handling bankrupt debtors. The first, Compulsory Settlements, allows the insolvent debtor to submit a plan for financial reorganization with the Court. The Compulsory Settlement Plan is then voted upon by the creditors and must be accepted by those creditors whose claims represent more than 60% of the total claimed. If the settlement is accepted, the debtor is excused from the obligation to pay the creditor the amount that exceeds the percentage of payment set forth in the confirmed settlement. The payment terms re then extended in accordance with the conditios of forced settlement. Confirmed compulsory setlement affects creditors who have voted against ompulsory settlement and creditors who have not rported their claims in the settlement procedure. The creditor or debtor may also initiate bankrupty procedures. The court names a bankruptcy admiistrator who sells the debtor,s property accordig to the bankruptcy senate president's instructios and supervision. As a rule, the debtor,s proprty is sold by public auction. Otherwise, the ceditors, committee may prescribe a different mode f sale such as collecting offers or placing condtions for potential buyers. The legal effect of completed bankruptcy is the termination of the debtor,s legal status to conduct business, and the distribution of funds created from the sale of assets to creditors according to their share of total debt.

The third method, bankruptcy as forced liquidation, is distinguished from voluntary liquidation (without court intervention) as set forth in the Law on Commercial Companies. Forced liquidation is imposed on a debtor, for whom the law determines the liquidation procedure and the legal conditions for ending his existence as a business entity. This would occur, for example, if the management does not operate for more than twelve months, if the court finds the registration void, or by court order.

A.5 Performance Requirements and Incentives

No performance requirements are imposed as a condition for establishing, maintaining, or expanding an investment. There are some incentives offered to potential investors through the "FDI Incentive Scheme." The Inward Investment Cost-Sharing Grant Scheme will co-fund investments in industry, strategic services, or research and development that will result in at least 10 to 50 new jobs. More information and application forms can be found at www.investslovenia.org. On the other hand, the rigid procedures necessary to acquire work permits serve as an impediment for foreign investors. It can take two to three months to obtain a work permit. The Ministry of Labor has established a fast-track procedure for foreigners who are registered in the court registry as authorized persons or representatives of companies, managers of branch offices, and for foreigners who are temporarily sent to work in organizational units for foreign legal persons registered in Slovenia. More info on work permits and employment services at http://www.ess.gov.si.

A.6 Right to Private Ownership and Establishment

Private enterprise and ownership are promoted and protected in Slovenia, both by statute and the Constitution. Slovenia,s laws on foreign investment are fully harmonized with EU legislation. As provided for in the Law on Commercial Companies, all business activities within Slovenia are open to domestic and foreign natural and legal persons who may establish wholly or partially owned companies in any legal form provided by the Commercial Companies Act (Limited, General, and Silent Partnerships; Joint Stock Companies,

Limited Liability Companies, and Partnerships Limited by Shares; and Economic Interest Groups). Foreign investors may freely invest in Slovene companies in most industries except in banking and insurance industries, where a permit from the Bank of Slovenia or Insurance Supervision Agency is needed. Furthermore, current regulations limit the foreign ownership stake in gaming interests to 20%. Foreign investors are permitted to obtain concessions for the exploitation of renewable and non-renewable natural and public goods. In addition, foreign and domestic investors have the same reporting requirements to the Bank of Slovenia.

There are also some restrictions on foreign investment in the field of military supply. For example, direct investments made by non-residents in companies or other entities that are engaged in the production of, or trade in, weaponry and military equipment are allowed only if specifically authorized by the Government of the Republic of Slovenia.

Any company registered in Slovenia is granted the status of a Slovenian legal entity under which they enjoy national treatment. Foreign investors are subject to the same legal treatment as domestic companies and enjoy the same rights and obligations. The registration process is rather simple and usually takes between three weeks and one month to complete. Registered foreign-owned companies may also become members of the Ljubljana Stock Exchange.

Foreign-owned companies are entitled to own property in Slovenia. All citizens and enterprises of the European Union or the U.S. have the same purchase rights and rights of use of land and natural resources as citizens and domestic enterprises. If a foreign citizen or legal person from a third (i.e., non-EU) country decides to establish a company in Slovenia, this company is considered a Slovenian legal person and as such can buy, own and sell real estate. However, while the law provides for these rights, some foreign companies have experienced unexplainable delays in obtaining land even after all the necessary paperwork is in order.

Foreign shareholders are entitled to free and unrestricted transfer of their profits abroad in foreign currency, providing that they meet their tax obligations. The 23% corporate tax rate in Slovenia applies to domestic and foreign companies and is among the lowest rates in Europe. In 2007, the government announced further reduction of the corporate rate from 23% in 2007, to 22% for 2008, 21% for 2009 and 20% for 2010 and beyond.

Credits and guarantees between residents and non-residents are regulated by the Foreign Exchange Act. The law differentiates between commercial and financial credits. Commercial credits are those credits relating to trade and rendering international services that involve a resident as one of the contracting parties. Commercial credits include contractual trade credits (deferred payments and/or advances) and their financing by banks. Factoring operations are also considered to be commercial credits, on the condition that the underlying operations from which the claims arise have the nature of commercial credits. All other operations are considered to be financial credits, including mortgage-backed and consumer loans as well as financial leasing operations.

All credit transactions, except commercial credits with payment delay or prepayments less than 12 months, must be in written form and contain all obligatory parts of the credit business. Authorized banks undertake credit operations with non-residents for their own accounts and in their own name or in their own name and for someone else's account as his proxy. Residents other than banks undertake credit operations with non-residents for their own accounts and in their own name. Residents must report all credit operations with non-residents to the Bank of Slovenia within 10 days of signing the loan contract.

Larger banks in Slovenia also have specialized International Desks, which offer bank services to foreign companies and

persons.

The 1999 Law on Banking allows foreign banks to establish branch offices in Slovenia. Since 1999, local borrowers have faced no restriction regarding borrowing from abroad, which was strictly regulated before the new legislation. Once Slovenia joined the EU, its banking regulation was entirely harmonized with the banking regulation of the EU.

As of June 2001, all restrictions on portfolio investments by foreigners in Slovenia have been abolished and the purchase of foreign equities by Slovenes has been fully liberalized.

A.7 Protection of Property Rights

There is no law, statute, or regulation that specifically deals with mortgage banking services in Slovenia. However, the Government has committed itself to creating a mortgage banking system to include property assessments and deeds that will replace the current Land Registry system. Currently there are no special mortgage banks in Slovenia. Accordingly, only a few Slovenian banks offer mortgage loans per se. Nevertheless, banks provide loans that are secured by mortgages. They are frequently granted to corporate clients and entrepreneurs as well as to private individuals.

In order for mortgages to be effective against any owner of real estate, the mortgage must be registered in the Land Registry Book at the Land Registry Office. The Land Registry Book was introduced within the present territory of Slovenia in the 19th century and serves to inform the general public of the owner of land, buildings, and parts of buildings. Within the legal system, the Land Registry Book is connected in part with substantive civil law, which regulates default procedures on real estate.

Even though many banks give priority to the cash flow statements before the collateral of the loan, the use of mortgages to finance real estate developments is common in Slovenia. Mortgages are used as collateral for corporate financing of development projects. The creditor often requires the debtor to own, in equity, one and a half to two times the amount of the loan, depending on the debtor,s credit rating. Once the mortgage is consummated between the creditor and debtor, it is registered in the Land Registry Book. If the mortgager defaults on the loan, the law provides for a foreclosure procedure on the mortgaged property.

Slovene banks also offer project financing services for construction and development projects. Under this program, the banks offer up to 70% financing (30% of the project cost is usually required from the investor,s own sources). The banks also offer advisory services pertaining to Slovene regulations on building and sales of real estate as well as transfer of ownership of the mortgaged real estate. As collateral, the bank usually requires a mortgage on the building being built.

Slovenia has enacted highly advanced and comprehensive legislation for the protection of intellectual property that fully reflects the most recent intellectual developments in the TRIPS Agreement (Trade Related Aspects of Intellectual Property) and various EU directives. Slovenia negotiated its TRIPS commitments as a developing country and implemented its commitments as of January 1, 1996. Slovenia is a full member of the TRIPS Council of the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). Slovenia has already ratified the WIPO Copyright Treaty and the Cyber Crime Convention.

Slovenia,s Intellectual Protection Office actively participates in the Intellectual Property Working Party of the Council of the EU, the Trademark Committee and other EU working bodies in formulation of new EU legislation. The Copyright and Related Rights Act amended in 2001 and 2004 deals with all fields of modern copyright and related rights law, including traditional works and their authors, computer

programs, audiovisual works, as well as rental and lending rights. The act also takes into account new technologies such as storage and electronic memory, original databases, satellite broadcasting, and cable re-transmission. The 2004 harmonization with the EU legislation introduced a new system of collective management of intellectual rights following the latest directive.

The 1994 Law on Courts gives the District Court of Ljubljana exclusive subject matter jurisdiction over intellectual property disputes. The aim of the law is to ensure specialization of the judges and the speed of relevant proceedings. Concerning the TRIPS Agreement,s enforcement provision, Slovene law provides for a number of civil legal sanctions, including injunctive relief and the removal of the infringement, the seizure and destruction of illegal copies and devices, the publication of the judgment in the media, compensatory and punitive damages, border (customs) measures, and the securing of evidence and other provisional measures without the prior notification and hearing of the other party. Furthermore, these infringements also constitute a misdemeanor with fines ranging from 417 Euro ($583) to 41,729 Euro ($ 58,300) for legal persons and a range of fines, from 41.73 Euro ($58) to 2,086 Euro ($2,917), for supervisors of individual offenders provided that the reported offenses are not criminal in nature. In such a case, the Slovenian Criminal Code would apply, which may result in fines or in extreme cases, imprisonment. While Slovene laws regarding intellectual property are clearly defined, there have been complaints by foreign investors about the slow nature of the court system.

Since the enactment of the Law on Copyright and Related Rights Act, there have been relatively few reported prosecutions for infringement violations. Most notably are cases of computer software piracy. In 2004, a long-running software piracy court case ended with a jail sentence and monetary fine. Since piracy prosecution is still in the early stages of implementation, Slovenia has dedicated resources to the training of prosecutors and public authorities. Slovenia continues to address the preservation of evidence in infringement procedures and border measures by amending existing legislation. Moreover, the Ministry of Culture established the Intellectual Property Fund, the Slovene Copyright Agency, and the Anti-Piracy Association of Software Dealers (BSA) to combat the problem of piracy in a collective manner.

The Law on Industrial Property grants and protects patents, model and design rights, trademark and service marks, and appellations of origin. The holder of a patent, model, or design right is entitled to: exclusively work the protected invention, shape, picture, or drawing; exclusively market any products manufactured in accordance with the protected invention, shape, picture, or drawing; dispose of the patent, model, or design right; prohibit working of the protected invention, model, or design and legal transactions in respect of them, by any person not having his consent.

The holder of a trademark has the exclusive right to use the mark in the course of trade to designate his products or services. The authorized user of a protected appellation of origin has the right to use the appellation in the course of trade for marking products to which the appellation refers.

The patent and trademark rights granted by the Law on Industrial Property take effect from the date of filing the appropriate applications. Patents are granted for twenty years from the date of filing and model and design rights are granted for ten years. Trademarks are granted for ten years, but may be renewed an unlimited number of times. The term of an appellation of origin is unlimited. All patents and trademarks are registered through the Slovenian Intellectual Property Office with all registers open to the public. Patent and trademark applications filed in member countries of the International Union for the Protection of Industrial Property are afforded priority rights in Slovenia. The priority period is twelve months for patents and six months

for model and design rights.

Any person who infringes upon a patent or trademark right may be held liable for damages and prohibited from carrying on the infringing acts.

The Law on Industrial Property also provides for the contractual licensing of patents, model and design rights, and marks. All license agreements must be in writing and specify the duration of the license, the scope of the license, whether the license is exclusive or non-exclusive, and the amount of remuneration for the use if compensation is agreed upon.

Compulsory licenses may be granted to another person when the invention is in the public interest or the patentee misuses his rights granted under the patent. A misuse of a patent occurs when the patentee does not work or insufficiently works a patented invention and refuses to license other persons to work the protected invention or imposes unjustified conditions on the licensee. If a compulsory license is granted, the patentee is entitled to compensation. Slovene industrial property legislation fully complies with EU standards.

A.8 Transparency of Regulatory System

Foreign companies conducting business in Slovenia have the same rights, obligations, and responsibilities as domestic companies. The principles of commercial enterprise, free operation, and national treatment apply to the operations of foreign companies as well. Their basic rights are guaranteed by the Law on Commercial Companies and the Law on Foreign Transactions.

Generally, the bureaucratic procedures and practices are sufficiently streamlined and transparent for the foreign investor wishing to start a business in Slovenia. In order to establish a business in Slovenia, the foreign investor must produce a sufficient minimum amount of capital, and 8,763 Euro ($12,256) for a limited liability company and 25,038 Euro ($35,018) for a stock company, establish a business address, and file appropriate documentation with the court. The entire process usually takes from three weeks to one month, but may take longer in Ljubljana due to backlogs in the court.

Slovenia signed a reciprocal taxation treaty with the U.S. in June 1999. The rate of taxation of profits in Slovenia is lower than in the United States. Slovenia introduced the Value Added Tax (VAT) in July 1999. Slovenian VAT only has two grades, 8.5% and 20%. The standard VAT is 20% with 8.5% for some specialty items.

In Slovenia, highly concentrated market structures are not illegal per se; however, the abuse of market power is. The Law on the Protection of Competition prohibits acts that restrict competition in the market, conflict with good business practices relating to market access, or involve prohibited speculation. The law, which is fully harmonized with EU legislation, is applicable to corporate bodies and natural persons engaged in economic activities regardless of their legal form, organization, or ownership. The law also applies to the actions of public companies.

Restriction of competition through cartel agreements, unfair competition (i.e., false advertising, promises/gifts in exchange for business, trade secrets, etc.), illicit speculation during times of irregular market situations, and dumping and subsidized imports are all prohibited. The Government may, however, prescribe market restrictions in the following instances: in cases of natural disasters, epidemics, or in a state of emergency; in cases of appreciable market disturbances due to the shortage of goods; or when necessary to satisfy requirements for the products, raw materials, and semi-finished goods of special or strategic importance to the defense of the nation.

The Competition Protection Office (CPO) is charged with ensuring fair competition in the marketplace. Investigations can be initiated by the CPO or conducted at the request of private companies. The CPO can issue a decree against any company found to have violated the Law on the Protection of Competition, although the power to fine companies rests solely in the hands of the courts. Any party trading in goods or services on the market may initiate legal proceedings in cases of unfair competition. Injured parties are entitled to compensation and the injunction of the unfair acts.

The court may issue a penalty of 125,188 Euro ($175,100) to 375,563 Euro ($524,000) against companies found to have engaged in cartel agreements, abused a dominant market position, committed an act of unfair competition, or engaged in illicit speculation. The managers and directors of the sanctioned company may be liable for a minimum fine of 4,173 Euro ($5,800). Self-employed persons found to have committed any of the legally prohibited actions are liable for no less than 41,729 Euro ($58,800). There are also fines for not complying with the CPO in the range of 2,086 Euro to 4,173 Euro ($2,900 to $5,800) for every week that requested documentation is not submitted. The same range of fines also applies if the sanctions are not carried out.

A.9 Efficient Capital Markets and Portfolio Investment
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The financial sector remains relatively underdeveloped for a country with Slovenia's prosperity. Enterprises rarely raise capital through the stock market. The shallowness of the sector hinders economies of scale and, despite shortcomings in the banking sector, capital is cheaper to acquire through banks than through more direct equity or debt sales.

The banking sector in Slovenia is marked by a relatively high degree of concentration (the three largest banks account for half of total banking assets and the top seven hold nearly 80% of the market), excess capacity (21 banks, 3 savings banks in a country of 2 million people), and a low level of services. As a result, a number of banks are unable to exploit economies of scale and have relatively low productivity levels, with the consequences being high margins and low returns on equity.

In the past several years, a number of Slovene banks have been partially or fully taken over by foreign banks. In addition, a number of Slovene banks have announced mergers. In 2001, France,s Societe Generale took over Slovenia,s largest private bank, SKB Banka. In October 2001, Italian banking group San Paolo IMI purchased 82% of Bank of Koper, the fifth largest bank. In spring 2002, the Government sold 34% of the largest commercial bank, Nova Ljubljanska Banka (NLB), to the Belgian KBC Group, with another 5% sold to the European Bank for Reconstruction and Development (EBRD). The Government has stated that it intends to invite further investment in NLB, but no activities have been in place so far. Instead, the EBRD sold its stake in NLB to a domestic investor; KBC negotiates sale of its stake with a foreign portfolio investor. The two largest banks, NLB and Nova Kreditna Banka Maribor (NKBM), are still majority-owned by the state but the current government avers that it is committed to privatizing them. Because the Government could not find a strategic partner for NKBM, it offered 49% of the bank to small investors in December 2007. The Government announced a further decrease of state shares down to 25% over the next two years. Because the sale of NKBM among small investors was publicly well received, the Government announced similar privatization for NLB and insurance company TRIGLAV prior to parliamentary elections in the fall of 2008. Lack of time and global financial crisis caused cancellation or postponement of such plans.

The balance sheets of Slovenia,s banks are relatively strong, reflecting an early and aggressive program of bank rehabilitation launched by the Government in 1992. However, the wide differences between the balance sheets of the largest and the smallest banks seem to indicate that the

ultimate consolidation of the banking sector is inevitable. The Government has encouraged bank mergers as a means of dealing with the sector's excess capacity.

New banking legislation authorizes commercial banks, savings banks, and stock brokerage firms to purchase securities abroad. Investment funds may also purchase securities abroad provided that certain diversification requirements are met.

The Ljubljana Stock Exchange (LSE) was established in 1990. A Commodity Exchange (CE) was established in 1994, but ceased operation in 1998. The LSE underwent its most rapid growth during the period from 1994 to 1997, aided by the listing of new companies in the first phase of privatization in Slovenia. The LSE serves more as a vehicle for achieving the transformation of enterprises than as a means for raising capital. In 1997, the LSE became a full member of the International Association of Stock Exchanges (FIBV). In September 2008, the Wiener Borse acquired a majority stake in the LSE (81%). The change should help the development of the stock market and could provide an incentive to speed up the privatization process.

The LSE has been working to encourage the government to list shares of strong, state-owned companies such as Telekom Slovenije or NLB in order to boost market activity. As of January 2009, Telekom Slovenije, insurance company TRIGLAV and NKBM bank are the only state-owned companies listed on the Ljubljana Stock Exchange. Although the initial Telekom Slovenije, TRIGLAV and NKBM trade volume was low, doors are open for an investor.

The LSE has two official listings - A and B - depending on the amount of a listing's capital, audited financial statements, size of the class of securities, and securities distribution. The over-the-counter (C) market has less stringent requirements. In spite of the market boom since 2002, securities markets remain relatively underdeveloped in Slovenia. Despite appreciation of the market capitalization of the LSE in recent years, it remains a very illiquid market, with annual turnover similar to a single day,s trading on the NYSE.

In 1995, the Central Securities Clearing Corporation (KDD) was established. KDD runs the central registry securities and trade clearings concluded on the LSE electronic trading system. The Securities Market Agency (SMA), established in 1994, has powers similar to the SEC in the U.S. The SMA supervises investment firms, the LSE, the KDD, investment funds, and management companies, and shares responsibility with the Bank of Slovenia for supervision of banking and investment services.

The LSE uses different dissemination systems, including real time online trading information via REUTERS or the BDS System. The LSE also publishes information on the Internet at http://www.ljse.si.

A high level of concentration characterizes the insurance sector in Slovenia with the largest company, state-owned Triglav d.d., holding 43% of the total market in gross premiums and the 5 largest companies accounting for 91% of market share. Insurance companies invest their assets primarily in non-financial companies, state bonds, and bank-issued bonds.

There have been significant changes in the legislation regulating the insurance sector since 2000. The Ownership Transformation of Insurance Companies Act, designed to accomplish the privatization of insurance companies, was postponed several times due to ambiguity concerning the estimated share of state-controlled capital. Although insurance sector privatization discussions have been ongoing since 2005, no concrete plans have been implemented.

Currently, there are three health insurance companies registered in Slovenia and 13 companies offering other kinds of insurance. However, under EU regulation, any insurance

company registered in the EU can market its services in Slovenia as well, given that the insurance supervision agency of the country where this company is registered has notified the Slovenian Supervision Agency of the company,s intentions.

A.10 Political Violence

Except for a brief, 10-day conflict in 1991 over Slovene independence, there have been no incidents of political violence in Slovenia.

A.11 Corruption

Similar to many other European countries, Slovenia does not have a bribery statute equal in stature to the U.S. Foreign Corrupt Practices Act. However, Chapter 24 of the Slovene Criminal Code (S.C.C.) provides statutory provisions for criminal offenses in the economy. Corruption in the economy can take the form of corruption among private firms or corruption among public officials.

The S.C.C. provides for criminal sanctions against officials of private firms for the following crimes: forgery or destruction of business documents; unauthorized use or disclosure of business secrets; insider trading; embezzlement; acceptance of gifts under certain circumstances; money laundering; and tax evasion.

Specifically, Articles 241 and 242 of the S.C.C. make it illegal for a person performing a commercial activity to demand or accept undue rewards, gifts, or other material benefits that will ultimately result in the harm or neglect of his business organization. While Article 241 makes it illegal to accept gifts, Article 242 prohibits the tender of gifts in order to gain an undue advantage at the conclusion of any business dealings.

Public officials are held accountable under Article 261 of the S.C.C., which makes it illegal for a public official to request or accept a gift in order to perform or omit an official act within the scope of his official duties. The acceptance of a bribe by a public official may result in a fine or imprisonment of no less than one year, with a maximum sentence of five years. The accepted gift/bribe is also seized.

While Article 261 holds public officials accountable, Article 262 holds the gift,s donor accountable. Article 262 makes it illegal for natural persons or legal entities to bribe public officials with gifts. Violation of this article carries a sentence of up to three years. However, if the presenter of the gift discloses such bribery before it is detected or discovered, punishment may be omitted. Generally, the gift is seized. However, if the presenter of the gift disclosed the violation, the gift may be returned to him/her.

The state prosecutor,s office is responsible for the enforcement of the anti-bribery provisions. The number of cases of actual bribery is small and is generally limited to instances involving inspection and tax collection. Although the prosecutor,s office may suspect bribery and related corruption practices in government procurement offices, obtaining evidence is difficult, thereby making it equally difficult to prosecute. Corruption in Slovenia is on a minor scale. 2001 saw Slovenia,s first and only serious scandal involving a high public official convicted of accepting a bribe.

A.12 Bilateral Investment Agreements

Slovenia has signed Bilateral Investment Treaties (BITs) with Albania, Australia, Austria, Belgium - Luxembourg Economic Union, Bosnia & Herzegovina, Bulgaria, Chile, China, Croatia, Cuba, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Kuwait, Lithuania, Macedonia (F.Y.R.), Malaysia, Malta,

Moldova, Montenegro, Netherlands, Norway, Poland, Portugal, Romania, Russian Federation, Singapore, Slovak Republic, Spain, Sweden, Switzerland, Thailand, Turkey, Ukraine, the United Kingdom, Uzbekistan, and Serbia. Slovenia is currently negotiating BITs with Argentina, Brazil, Saudi Arabia and Vietnam. Slovenia does not have a BIT with the United States due to ongoing discussions between the US and the EU on how member states without a BIT treaty will accede to the US-EU BIT agreement.

A.13 OPIC and Other Investment Insurance Programs
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The U.S. Overseas Private Investment Corporation (OPIC) and Slovenia signed a bilateral agreement on April 24, 1994. There are currently a number of OPIC investment finance and insurance programs available in Slovenia, including loan guarantees, direct loans, and political violence and expropriation insurance.

The U.S. Export-Import Bank offers short-, medium-, and long-term private sector as well as short-term public sector programs in Slovenia. In July 1999, the Slovenian Export Corporation (SEC) and the U.S. Export-Import Bank signed a memorandum on cooperation in financing, insuring, and reinsuring exports to Southeast European countries. In January 2007, the SEC restructured to become the Slovenian Export and Development Bank. More information is available on their website www.sid.si.

A.14 Labor

The labor market has been tight in recent years, and as of September 2008, the unemployment rate stood at a record-low 3.9% (according to the ILO method). But the spreading global financial crisis began to affect Slovenia in the last quarter of 2008, and in January 2009, Slovenia experienced its first layoffs. We expect unemployment will rise moderately in 2009, especially in construction, automotive, textile and other areas of industrial production. The government,s economic reforms propose to address this problem through a combination of retraining and investment in new technologies. The regions of highest unemployment in Slovenia are mostly in the northeast.

Slovenia fully harmonized its labor legislation with the EU on May 1, 2004. Slovenia has opted for no transition period in connection with workforce movement within the EU, but has kept the right to intervene through 2009 in case of market distortion. In line with new legislation, Slovenia has retained strict rules on issuing work permits to non-EU applicants. The 2001 Employment of Aliens Act introduces a quota system for work permits and simplifies the procedure for obtaining work permits for foreigners who have worked and lived in Slovenia over a long period of time.

Slovenia,s wage-setting practice follows the "social partners" mode, designed to contain upward pressure by centralizing wage decisions. In practice, however, high wage expectations have pushed Slovenia,s wage levels far above those of its central European neighbors, reaching about half the cost of Austrian labor. However, its well-educated labor force and position as the most productive transition economy allow it to remain competitive in niche markets.

Slovenia adopted an Employment Relationship Act that entered into force in January 2003. The Act defines a full time workweek as 36 to 40 hours (made up of 6 to 8-hour days including a 30-minute lunch break), increases protection of critical working groups (including women and children), and eases the conditions under which an employer may terminate employees.

Slovenia,s labor force performs well in the higher value-added activities that utilize its skilled technicians and engineers at a somewhat lower cost than in the developed West. However, Slovenia would benefit from a workforce with stronger managerial skills, most notably in the banking and insurance sectors. Despite the introduction of greater labor

market flexibility, the market for workers remains quite rigid and investors will find that termination of workers is more difficult than in the U.S. In addition, the labor market remains relatively over-protected, and pay scales in public service are very complicated and do not reward performance.

One month before the September 2008 national elections, the outgoing government implemented public sector pay reforms, establishing new minimums. In light of the global financial crisis, the new government has already requested to change or repeal the reforms. It has stated that unless the unions agree to lower the minimums, it will have to institute public sector layoffs.

A.15 Foreign-Trade Zones/Free Ports

There are two kinds of Free Trade Zones in Slovenia: Free Economic Zones and Free Customs Zones.

A.15.1 Free Economic Zones

Free economic zones (FEZ) exist in Koper and Maribor. FEZs may be established by one or more domestic legal persons. The founders must provide the resources necessary for the establishment and commencement of operation, as well as suitable technical, organizational, ecological, and other conditions for the performance of business activities.

The following activities may be performed within free economic zones: production and services; wholesale trade; banking and other financial services; and insurance and reinsurance regarding the above mentioned activities.

After obtaining an appropriate tax authority decision, users of FEZs are entitled to the following benefits:

- VAT exemption for imports of equipment, production materials, and services necessary for export production or performance of other permitted activities;
- a reduction in corporate tax rates from the normal 21% to 10%;
- a tax allowance amounting to 50% of invested resources on investments in tangible assets in the FEZ; and
- a reduction in the taxable base amounting to 50% of the salaries of apprentices and other workers formerly unemployed for at least 6 months.

While FEZ Koper is fully operational, only a few companies are present in FEZ Maribor. Despite the poor showing in Maribor, the Law on Free Economic Zones guarantees operations will continue in FEZs through at least January 1st, 2010.

A.15.2 Free Customs Zones

As of December 2008, the only free customs zone (FCZ) in Slovenia is the Port of Koper. Under the Customs Act, subjects operating in FCZs are not liable for payment of customs duties, nor are they subject to other trade policy measures until goods are released into free circulation.

Duties and rights of users include the following:

- Separate books must be kept for activities undertaken in FCZs;
- Users may undertake business activities in a FCZ on the basis of contracts with the founders of FCZs;
- Users are free to import goods (customs goods, domestic goods for export) into FCZs;
- Goods imported into FCZs may remain for an indefinite period, except agricultural produce, for which a time limit is set by the government;
- Entry to and exit from FCZs is to be controlled;
- Founders and users must allow customs or other responsible authorities to execute customs or other supervision; and
- For the purposes of customs control, users must keep records of all goods imported into, exported from, or consumed or altered in FCZs.

The Customs Act also allows the establishment of open FCZs regulated by more liberal provisions regarding their organization and customs authorities, supervision.

In such FCZs, users may undertake the following activities:

Production and service activities, including handicrafts, defined in the founding act or contract, and banking and other financial business transactions, property and personal insurance and reinsurance connected with the activities undertaken;

Wholesale transactions; and

Retail sales, but only for other users of the zone or for use within the FCZ.

Slovenia has recently developed sites designed for greenfield investments. Most of the newly developed industrial zones have direct access to highways and rail service. The infrastructure in place is well developed. In some instances, prices for fully equipped land in industrial zones may be acquired at a reasonable rate since municipalities and the State often subsidize infrastructure and land costs. Above all, local authorities are interested in new employment opportunities. Land prices can vary greatly. In Lendava, a town located in the eastern part of the country, price per square meter of land is roughly 5 Euro, while prices in the vicinity of Ljubljana can run to 50 Euro or more. Potential investors may also count on a full range of free services and concessions provided by local development agencies for start-ups. The assistance may also include assistance in completing all the necessary paper work (permits) and, in some cases, organizing and financing construction in line with the investors, requirements. Interested investors can contact the U.S. Embassy in Ljubljana for further information.

A.16 Foreign Direct Investment Statistics

Foreign Direct Investment (FDI) in Slovenia is fairly low, despite Slovenia,s overall good mix of qualities as an investment location. Total FDI stock in Slovenia at the end of 2007 was $12.60 billion. As with trade, the bulk of FDI in Slovenia is European in origin. U.S. FDI in Slovenia, as calculated by the U.S. Embassy, is around 7% of the total, or roughly $850 million. (N.B.: The Bank of Slovenia (BoS), in its official data, lists U.S. FDI at approximately $74 million or 0.6% of total FDI. However, this amount does not take into account significant investments by U.S. firms, notably Goodyear. This data is not listed as U.S. in origin by the BoS as U.S. funds were routed through a third country. Goodyear,s investment in Sava Tires, for example, came to Slovenia via a bank in Luxembourg. Based on our discussions with U.S. firms, we believe our estimate of $850 million is a more accurate representation of the true U.S. FDI presence in Slovenia.)

Foreign Direct Investment in Slovenia - Stock on 31.12. 2007 (major investors)

Country	Total Value (Million Euros)	Share of Total(%)
Austria	4,264.0	44.6
Switzerland	1,063.1	11.1
Netherlands	730.3	7.7
France	724.9	7.6
Germany	645.4	6.8
Italy	483.0	5.0
Luxemburg	354.6	3.7
Croatia	277.8	2.9
Belgium	265.5	2.8
USA	55.4	0.6
...		
Total	9,542.9	100.0

Foreign Direct Investment in Slovenia by sector - Stock on 31.12. 2007

Sector	Total Value (Million Euros)	Share of Total(%)
Financial intermediation, not insurance	3838.6	40.2
Mfr. chemicals & chemical products	957.0	10.0
Wholesale, commission, not motors	593.4	6.2
Other business activities	566.6	5.9
Retail Trade	345.2	3.6
Sale/repair of motors and machinery	318.8	3.3
Electricity, gas, steam, and hot water	270.1	2.8
Mfr. of pulp, paper & paper products	265.7	2.8
Mfr. of rubber & plastic products	262.7	2.8
Mfr. of machinery & equipment	230.4	2.4
...		
Total	9,542.9	100.0

Slovene Foreign Direct Investment abroad - Stock on 31.12.2007

Country	Total Value (Million Euros)	Share of Total(%)
Croatia	1,074.6	22.0
Serbia and Montenegro	1,396.3	28.6
Bosnia and Herzegovina	565.3	11.6
Russian Federation	243.9	5.0
Netherlands	216.6	4.4
Macedonia	192.6	3.9
Monte Negro	159.6	3.2
Germany	144.9	3.0
Austria	135.6	2.8
Poland	108.9	2.2
Liberia	82.2	1.7
USA	22.4	0.5
...		
Total	4,888.8	100.0

Slovene Foreign Direct Investment abroad by sector - Stock on 31.12.2007

Sector	Total Value (Million Euros)	Share of Total(%)
Other business activities	674.5	13.8
Financial intermediation, not insurance	714.2	14.6
Retail trade, not motors; repairs	595.8	12.2
Mfr. chemicals & chemical products	453.8	9.3
Wholesale, commission, not motors	307.4	6.3
Mfr of food products & beverages	266.3	5.4
Mfr. of machinery & equipment	204.4	4.2
Postal Services, Telecommunications	196.8	4.0
Tourism	183.0	3.7
Sale/Repair of motor vehicles, etc	153.7	3.1
Manufacture of motor vehicles, etc	124.7	2.6
...		
Total	4,888.8	100.0

Major U.S.-based Investors:

The following is a short list in alphabetical order of U.S. firms holding investments or with a presence in Slovenia.

3M
Amway
ANR-Amer Nielsen Research
Caterpillar
Coca-Cola Corporation
Colgate-Palmolive
Cisco
Deloitte & Touche
DHL International
DuPont
Ecolab

Eli Lilly
Ernst & Young
Emerson Electronics
Goodyear
Hewlett-Packard Company
IBM
Johnson & Johnson
Liberty Global
Marsh
Masterfoods
Merck, Sharp & Dohme
Microsoft
McDonald,s
Motorola
Oracle Corporation
Pfizer Corporation
Philip Morris
PriceWaterhouse Coopers
Procter & Gamble
Schering-Plough
United Global Communications
Wrigley
Xerox
Other Major Foreign Investors in Slovenia:

Alcan, Canada
AmBev, Brazil
Belisce, Croatia
Bramac International, Austria
Brig&Bergmeister, Austria
Chiorino, Italy
Citroen, France
Danfoss, Denmark
Debitel AG, Germany
EGO, Switzerland
¶E. Leclerc, France
Faurecia, France
GKN, United Kingdom
Grammer Automotive, Germany
Grupo Bonazzi, Italy
Hella, Germany
Henkel Central, Austria
Horizonte Enterprise Development, Netherlands
IBRD, United Kingdom
Imperial Tobacco, United Kingdom
Inexia AB, Sweden
ISS Central Europe, Austria
IHC Holland, Netherlands
KBC, Belgium
KM Moebl, Germany
Lafarge Perlomooger, Austria
Mannesann Rexroth, Germany
Messer Griesheim, Germany
Mobilcom, Austria
Nijaz Hastor, Bosnia and Herzegovina
Novartis, Switzerland (Sandoz Group)
Novem, Germany
Pfledider, Germany
Podravka, Croatia
Renault, France
Rexel, France
Roto Frank AG, Germany
San Paolo IMI, Italy
Safilo, Italy
Siemens AG, Germany
Societe Generale, France
Sodexho Alliance, France
Spar, The Netherlands
STE Troyes, France
Styria Federn, Austria
TCG Unitech AG, Austria
UNI Credito, Italy
Vogt, Germany
Wieneberger, Austria

Web Resources
Employment Service of Slovenia: http://www.ess.gov.si/eng

Ljubljana Stock Exchange: http://www.ljse.si

Public Agency for Entrepreneurship and Foreign Investment:
http://japti.si

Slovenian Intellectual Property Office:
http://www.uil-sipo.si/sipo/

Slovenian Export and Development Bank Inc., Ljubljana:
http://www.sid.si/sidang.nsf

Bank of Slovenia: http://www.bsi.si/en/
GHAFARI